Excellence Plus Contracting's Financial Condition Analysis for the Period from 01.01.2011 to 31.12.2011

1. Excellence Plus Contracting's Financial Position Analysis

The analysis represented below on Excellence Plus Contracting's financial state and activity efficiency is made for the period from 01.01.2011 to 31.12.2011 based on the financial statements data prepared in accordance with standards generally accepted in the United States of America (US GAAP).

1.1. Structure of the Assets and Liabilities

Indicator	Value				Change for the analysed period	
	in *thousand USD*		% of the balance total		*thousand USD* (col.3-col.2)	± % ((col.3-col.2) : col.2)
	01.01.2011	31.12.2011	at the beginning of the period analysed (01.01.2011)	at the end of the period analysed (31.12.2011)		
1	2	3	4	5	6	7
Assets						
1. Current assets, total	4,158	4,401	98	98.3	+243	+5.8
Inventory	781	864	18.4	19.3	+83	+10.6
Receivables	3,020	3,167	71.1	70.7	+147	+4.9
Cash, cash equivalents, and short-term investments	146	165	3.4	3.7	+19	+13.2
2. Noncurrent assets	87	75	2	1.7	-12	-13.5
Liabilities and Equity						
1. Current liabilities	1,687	1,873	39.8	41.9	+186	+11

2. Noncurrent liabilities	16	16	0.4	0.4	–	–
3. Stockholders' equity	2,509	2,562	59.1	57.2	+53	+2.1
4. Other capital (temporary equity, commitments and contingencies)	32	25	0.8	0.5	-2,484	-99
Assets; Liabilities and Equity	**4,245**	**4,476**	**100**	**100**	**+231**	**+5.4**

The assets structure of Excellence Plus Contracting includes a great amount of current assets on 31 December, 2011 which take 98.3%. So noncurrent assets were only 1.7% of all the company's assets. During the year, it was observed that there was a growth in the assets of USD 231 thousand (to USD 4,476 thousand). The company's assets grew in parallel with equity (+2.1% for the period analysed). Growth of the equity value is a factor which positively describes the dynamics of Excellence Plus Contracting's financial state.

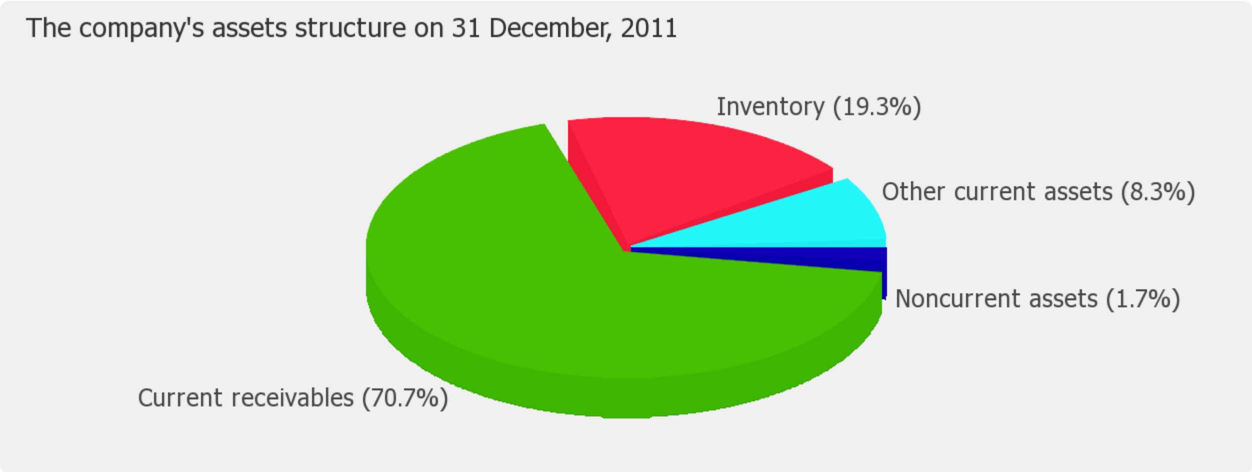
The increase in total assets of Excellence Plus Contracting occurred due to the growth of the following asset types (the sum of change and percentage of this change relative to the total assets growth are shown below):

- Receivables, net, current – USD 147 thousand (57.6%)
- Inventory, net – USD 83 thousand (32.6%)
- Cash, cash equivalents, and short-term investments – USD 19 thousand (7.5%)

With that, growth in the section "Equity and Liabilities" of the company's balance sheet is caused with an increase in the following rates (the percentage from total equity and liabilities change is shown in brackets):

- Accounts payable, current – USD 163 thousand (68.3%)
- Additional paid in capital – USD 53 thousand (22.2%)
- Taxes payable, current – USD 23 thousand (9.5%)

Total assets of the company did not grow to a greater degree due to a negative change of items such as "Property, plant and equipment, net" in assets and "Commitments and contingencies" in the company's sources of finance, which made USD -12 thousand and USD -8 thousand respectively for the entire period analysed.



The inventory equalled USD 864 thousand at the end of the period reviewed. The inventory climbed appreciably (USD +83 thousand) for the last year.

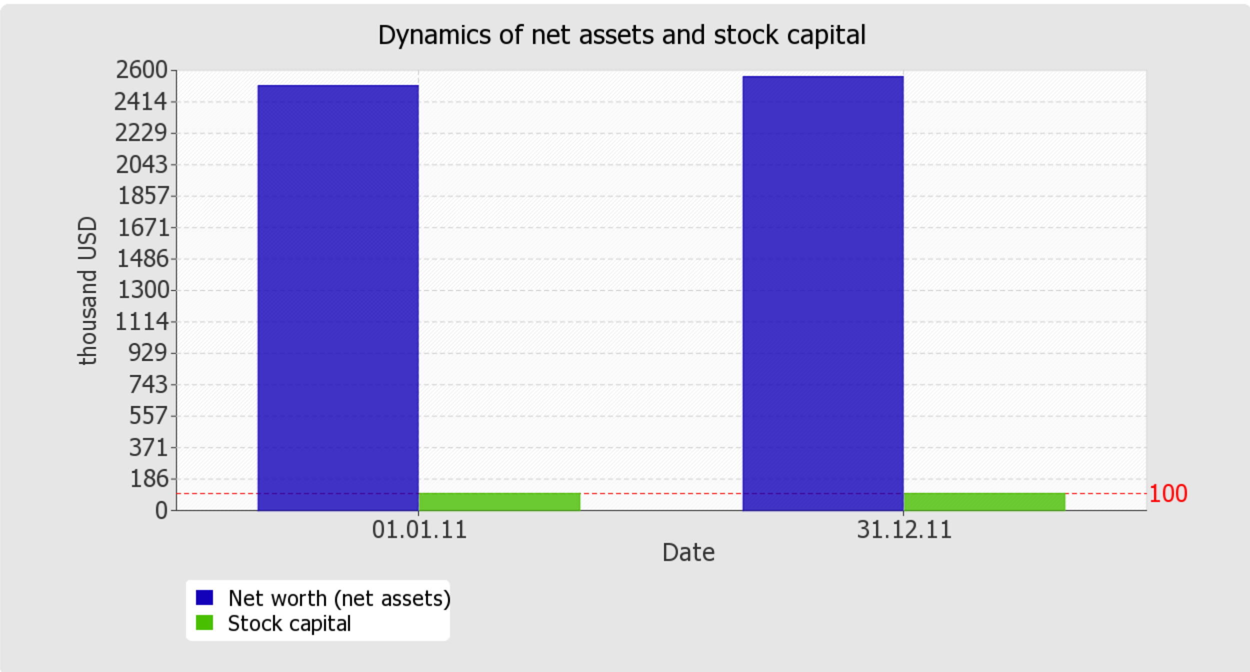
For the whole reviewed period, the current receivables were seen to go up moderately.

1.2. Net Assets (Net Worth)

Indicator	Value				Change	
	in *thousand USD*		% of the balance total		*thousand USD* (col.3-col.2),	%, ((col.3 -col.2) : col.2)
	at the beginning of the period analysed (01.01.2011)	at the end of the period analysed (31.12.2011)	01.01.2011	31.12.2011		
1	2	3	4	5	6	7
1. Net tangible assets	2,509	2,562	59.1	57.2	+53	+2.1
2. Net assets (Net worth)	2,509	2,562	59.1	57.2	+53	+2.1
3. Stock capital	100	100	2.4	2.2	–	–
4. Difference between net assets and stock capital (line 2 - line 3)	2,409	2,462	56.7	55	+53	+2.2

At the end of the period reviewed, the net tangible assets amounted to USD 2,562 thousand. During the reviewed period (2011), the net tangible assets went up moderately (by USD 53 thousand). In this case, Excellence Plus Contracting has no goodwill or other intangible assets. That is why rates of net worth and net tangible assets are equal On the last day of the period analysed.

The net worth (net assets) of Excellence Plus Contracting was much higher (by 25.6 times) than the stock capital on 31 December, 2011. It positively describes the company's financial state. Net worth is used as a rate of the company's book value (as opposed to a shareholder's value, the value based on expected earnings and other methods used to estimate the company's value). In financial analysis, rate of net worth (own equity) is one of the key indicators of property status of the company.



1.3. Financial Sustainability Analysis

1.3.1. Key indicators of the company's financial sustainability

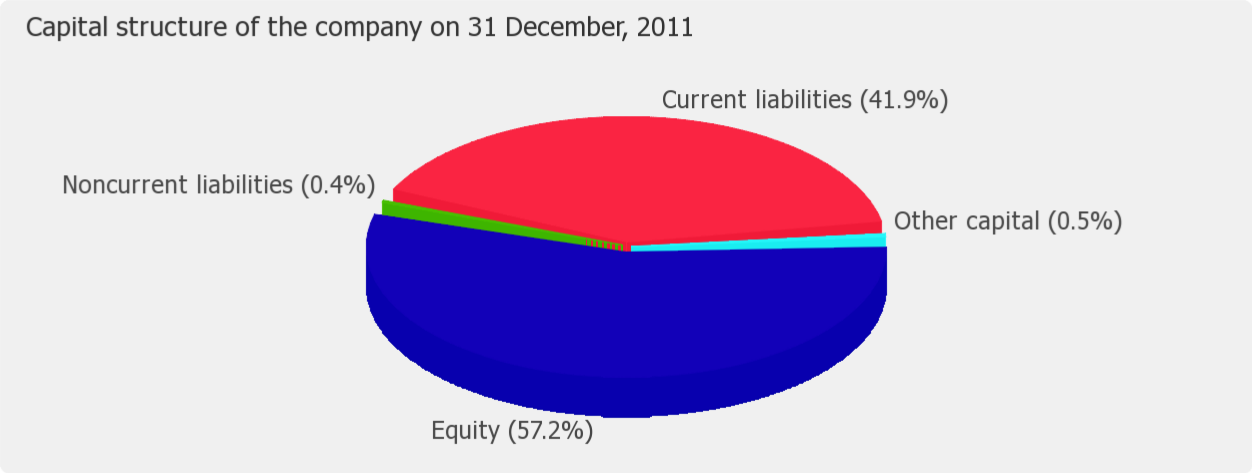
Indicator	Value		Change (col.3-col.2)	The indicator description and its recommended value
	01.01.2011	31.12.2011		
1	2	3	4	5
Debt-to-equity ratio (financial leverage)	0.68	0.74	+0.06	A debt-to-equity ratio is calculated by taking the total liabilities and dividing it by shareholders' equity. It is the key financial ratio and used as a standard for judging a company's financial standing. Acceptable value: no more than 1.5 (optimum 0.43-1).
Debt ratio (debt to assets ratio)	0.4	0.42	+0.02	A debt ratio is calculated by dividing total liabilities (i.e. long-term and short-term liabilities) by total assets. It shows how much the company relies on debt to finance assets (similar to debt-to-equity ratio). Acceptable value: 0.6 or less (optimum 0.3-0.5).
Long-term debt to Equity	0.01	0.01	–	This ratio is calculated by dividing long-term (noncurrent) liabilities by equity.
Noncurrent assets to Net worth	0.03	0.03	–	This ratio is calculated by dividing long-term (noncurrent) liabilities by net worth (equity) and measures the extent of a company's investment in low-liquid noncurrent assets. This ratio is important for comparison analysis because it's less dependent on industry (structure of company's assets) than debt ratio and debt-to-equity ratio. Acceptable value: 1.25 or less.
Capitalization ratio	0.01	0.01	–	Calculated by dividing noncurrent liabilities by the sum of equity and noncurrent liabilities.
Fixed assets to Net worth	0.03	0.03	–	This ratio indicates the extent to which the owners' cash is frozen in the form of fixed assets, such as property, plant, and equipment, investment property and noncurrent biological assets. Acceptable value: no more than 0.75.
Current liability ratio	0.99	0.99	–	Current liability ratio is calculated by dividing noncurrent liabilities by total (i.e. current and noncurrent) liabilities.

The debt-to-equity ratio and debt ratio are the main coefficients describing financial stability. The ratios are similar in their meaning and indicate a relationship between two main sources of capital: equity and borrowed capital. The difference between the ratios is that the first one is calculated as a relationship of the borrowed capital (liabilities) to the equity, while the second ratio is calculated as a relationship of the liabilities to the overall capital (i.e. the sum of equity and liabilities).

On 31 December, 2011, the debt-to-equity equalled 0.74. The debt ratio equalled 0.42 at the end of the period analysed. For the last year, it was monitored that there was a marked growth in the debt ratio, which made 0.02.

The debt ratio describes the financial position of Excellence Plus Contracting on 31 December, 2011 as a very good one, the percentage of liabilities makes 42.8%. The maximum acceptable percentage of liabilities is deemed to be 60%. When sources to finance the company are planned, this percentage should be used as an upper limit of acceptable percentage of the borrowed capital.

In the diagram below, one can see the structure of the company's capital:



According to common rules, noncurrent investments should be made, in the first place, with the help of the most stable source of financing, i.e. with the help of owned capital (equity). The noncurrent assets to Net worth ratio shows if this rule is followed. On 31 December, 2011, the ratio equalled 0.03. The ratio went down by 0.01 for the entire reviewed period. At the end of the period reviewed, the value of the ratio can be described as excellent.

The current liability ratio (0.99) shows that the amount of long-term debts of Excellence Plus Contracting is significantly lower than the amount of short-term debts at the end of the period reviewed, (0.9% and 99.1% respectively of total liabilities). Liabilities with short maturity are less preferred than long-term liabilities from positions of financial stability. In relation to this, the company should be more careful when borrowing short term capital.

1.3.2. Working capital analysis

Indicator	Value		Change for the period analysed	
	01.01.2011	31.12.2011	(col.3-col.2)	% ((col.3-col.2) : col.2)
1	2	3	4	5
1. Working capital (net working capital), thousand USD	+2,471	+2,528	+57	+2.3
2. Inventory, thousand USD	**+781**	**+864**	+83	+10.6
3. Working capital sufficiency (1-2), thousand USD	+1,690	+1,664	-26	-1.5
4. Inventory to working capital ratio (2:1) Acceptable value: 1 or less.	0.32	0.34	+0.03	x

The working capital was observed to jump moderately from USD 2,471 thousand to USD 2,528 thousand (USD +57 thousand) during the entire period analysed. The table above shows that working capital exceeds the company's inventory by USD 1,664 thousand. The inventory to working capital ratio was equal to 0.34 at the end of the period reviewed. It positively describes the company's financial state and says about enough long-term sources of financing, but in some cases it can be caused with warehouse inventory that is too low.

1.4. Liquidity Analysis

One of the most widespread indicators of a company's solvency are liquidity related ratios. The current ratio shows the capability of a company to meet current liabilities with all available current assets. Quick ratio describes solvency in the near future. Cash ratio shows if there is enough means for uninterrupted execution of current transactions. Current ratio, quick ratio and cash ratio for Excellence Plus Contracting are calculated in the following table.

Liquidity indicator	Value		Change (col.3 - col.2)	The indicator description and its recommended value
	01.01.2011	31.12.2011		
1	2	3	4	5
1. Current ratio (working capital ratio)	2.46	2.35	-0.11	The current ratio is calculated by dividing current assets by current liabilities. It indicates a company's ability to meet short-term debt obligations. Normal value: no less than 2.
2. Quick ratio (acid-test ratio)	1.88	1.78	-0.1	The quick ratio is calculated by dividing liquid assets (cash, cash equivalents and short-term investments, current receivables) by current liabilities. It is a measure of a company's ability to meet its short-term obligations using its most liquid assets (near cash or quick assets). Normal value: 1 or more.
3. Cash ratio	0.09	0.09	–	Cash ratio is calculated by dividing absolute liquid assets (cash, cash equivalents and short-term investments) by current liabilities. Acceptable value: 0.2 or more.

It was observed that there was a small reduction in the current ratio from 2.46 to 2.35 (-0.11) during the period analysed (01.01.2011–31.12.2011). At the end of the period reviewed, the value of the ratio can be characterized as absolutely normal.

On the last day of the period analysed (31.12.2011), the quick ratio equalled 1.78, which is 0.1 lower than on 01.01.2011. The value of the quick ratio can be characterized as excellent at the end of the period analysed. It means that Excellence Plus Contracting has enough liquid assets (cash and other assets which can be rapidly sold) to meet all their current liabilities.

As opposed to the two previous rates, the cash ratio has an unsatisfactory value (0.09) on 31.12.2011 which demonstrates that the company has a deficit of most liquid assets – cash and cash equivalents – to meet current liabilities.

2. Financial Performance

2.1. Overview of the Financial Results

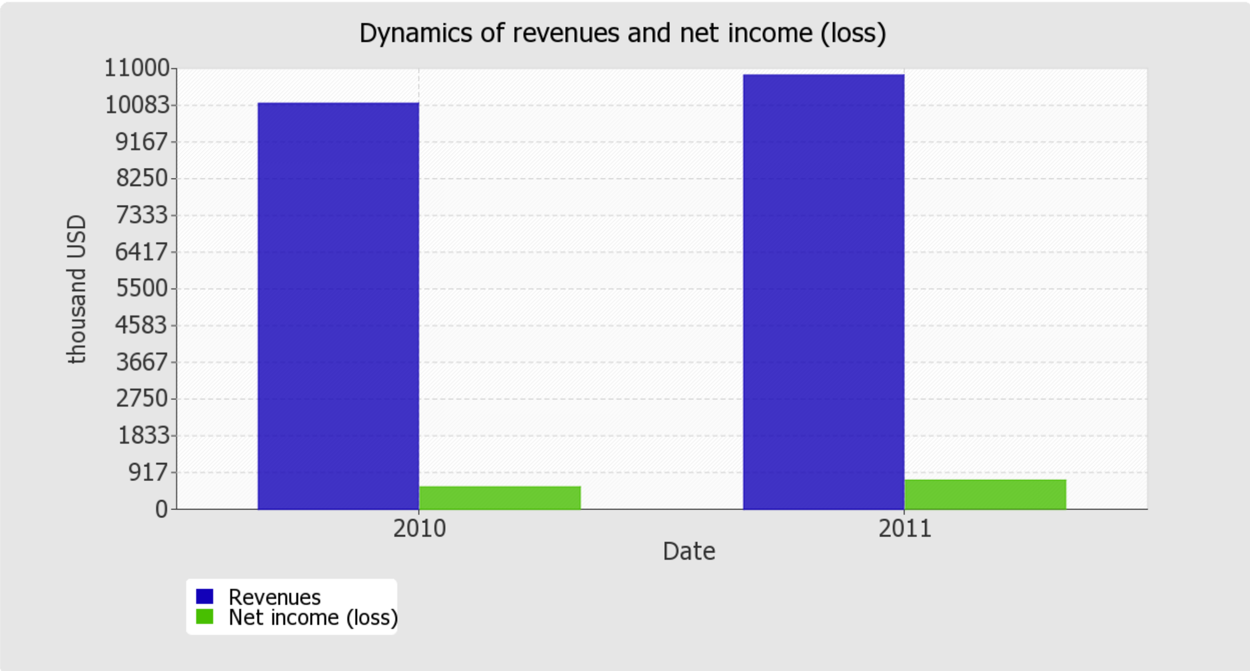
The table given below demonstrates the main financial results of Excellence Plus Contracting's activities for the year and also for the same period as last year.

Indicator	Value, *thousand USD*		Change		Average annual value, *thousand USD*
	2010	2011	*thousand USD* (col.3 - col.2)	± % (3-2) : 2	
1	2	3	4	5	6
1. Revenues	10,131	10,837	+706	+7	10,484
2. Cost of revenue	8,150	8,388	+237	+2.9	8,269
3. *Gross profit* (1-2)	1,981	2,449	+468	+23.6	2,215
4. Other income and expenses from continuing operations, except *interest and debt expense* and *income tax expense*	-1,420	-1,720	-300	↓	-1,570
5. *EBIT* (3+4)	560	729	+169	+30.1	645
5a. EBITDA	576	745	+169	+29.3	660
6. Interest and debt expense	2	–	-2	-100	1
7. Income tax expense (benefit)	4	6	+3	+66	5

8. *Income (Loss) from Continuing Operations* (5-6-7)	555	723	+168	+30.3	639
9. Income (loss) from discontinued operations and extraordinary item	–	–	–	–	–
10. Net income (loss), including portion attributable to noncontrolling interest (8+9)	**555**	**723**	**+168**	**+30.3**	**639**
11. Comprehensive income (loss), attributable to parent	555	723	+168	+30.3	639

During the last year, the revenue was equal to USD 10,837 thousand. The increase in the revenue was USD 706 thousand in comparison with the previous financial year. The diagram below demonstrates the change in revenue and net income (loss) including portion attributable to noncontrolling interest for Excellence Plus Contracting. For the year, the gross profit was equal to USD 2,449 thousand. The gross profit increased by USD 468 thousand, or by 23.6% in comparison with the previous financial year.

For the whole period reviewed, the company posted a gross profit and earnings before interest and taxes (EBIT), which made USD 729 thousand. The net income of Excellence Plus Contracting (including portion attributable to noncontrolling interest) made USD 723 thousand in total during the last year.

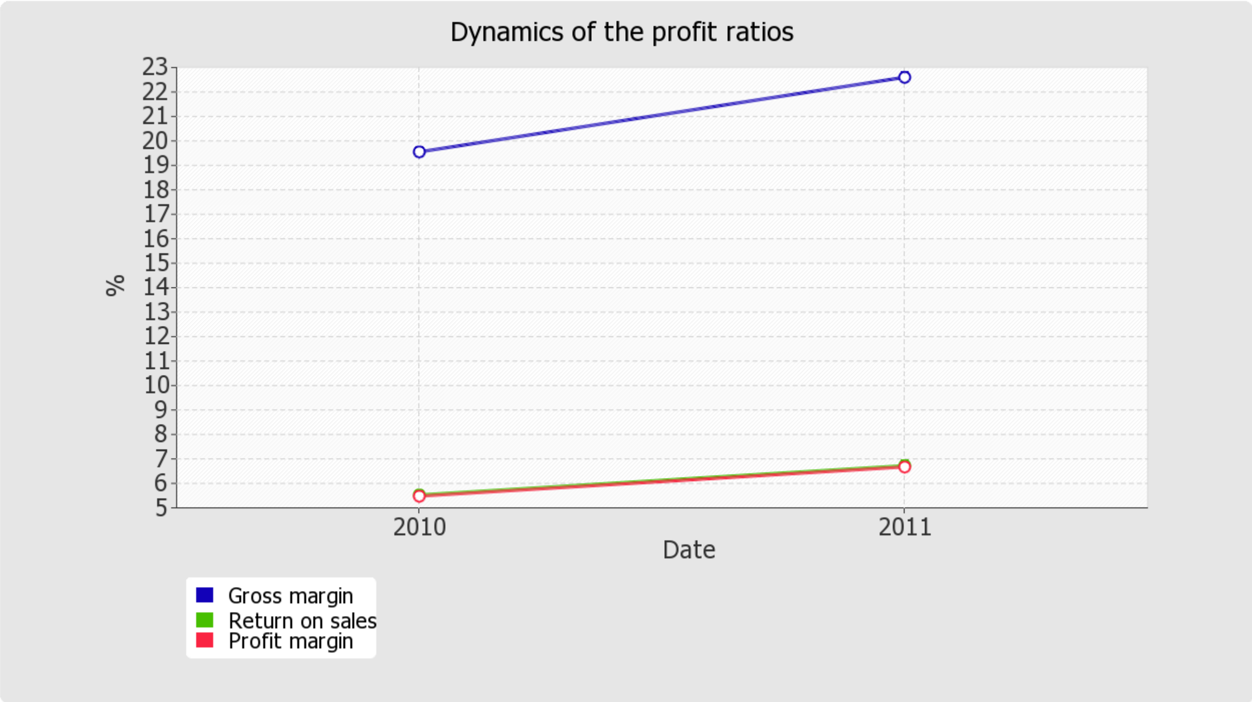


2.2. Profitability Ratios

Profitability ratios	Value in %		Change (col.3 - col.2)
	2010	2011	
1	2	3	4
1. Gross margin.	19.6	22.6	+3
2. Return on sales (operating margin).	5.5	6.7	+1.2
3. Profit margin.	5.5	6.7	+1.2
Reference: Interest coverage ratio (ICR). Normal value: 1.5 or more.	290	–	-290

For the entire period analysed, the company gained gross profit and profit from operational and financial activities, which became a reason for positive values of all three profitability ratios given in the table for this period. The gross margin amounted to 22.6% for the year. По сравнению с аналогичным периодом прошлого года, it was found that there was an appreciable increase in the gross margin of 3%.

Profitability calculated using EBIT (return on sales) deserves more attention. For the last year, the return on sales made 0.07 (or 6.7% per annum), and profitability calculated by final financial results (net profit) made 6.7% per annum.



Profitability ratios	Value, %	The indicator description and its reference value
	2011	
1	2	3
Return on equity (ROE)	28.5	ROE is calculated by taking a year's worth of earnings (net income or loss) and dividing them by the average shareholder equity for that period, and is expressed as a percentage. It shows the companies ability to generate profits before leverage, rather than by using leverage. Acceptable value: no less than 12%.
Return on assets (ROA)	16.6	ROA is calculated by dividing net income by total assets, and displayed as a percentage. Acceptable value: 6% or more.
Return on capital employed (ROCE)	28.6	ROCE is calculated by dividing EBIT by capital employed (equity plus noncurrent liabilities). It indicates the efficiency and profitability of a company's capital investments.

During the year, the return on assets demonstrates a very good value of 16.6%.

The most important indicator of business profitability is the return on equity (ROE), which reflects the profitability of investments by the owners. The profitability of the owners' investments in Excellence Plus Contracting's assets made 28.5% per annum during the whole period analysed. It is a high rate, but it is influenced not only with factors inside the company, but also the economic environment where the company is located (inflation rate, interest rates, etc).

2.3. Analysis of the Business Activity (Turnover Ratios)

In the following table, the calculated rates of turnover of assets and liabilities describe how fast prepaid assets and liabilities to suppliers, contractors and staff are returned can be found. Turnover rates have strong field specifics and depend on activity. That is why an absolute value of the rate does not allow making its' qualitative assessment.

Turnover ratio	Value, days	Ratio 2011
	2011	

1	2	3
Receivables turnover (days sales outstanding) (average trade and other current receivables divided by average daily revenue*)	104	3.5
Accounts payable turnover (days payable outstanding) (average current payables divided by average daily purchases)	69	5.3
Inventory turnover (days inventory outstanding) (average inventory divided by average daily cost of sales)	36	10.2
Asset turnover (average total assets divided by average daily revenue)	147	2.5
Current asset turnover (average current assets divided by average daily revenue)	144	2.5
Capital turnover (average equity divided by average daily revenue)	85	4.3
Reference: Cash conversion cycle (days sales outstanding + days inventory outstanding - days payable outstanding)	*71*	x

* Calculation in days. Ratio value is equal to 365 divided by days outstanding.

During the last year, the average collection period (days sales outstanding) was 104 days and the average days payable outstanding was 69 days as shown in the table. The data on asset turnover, on average, for the last year, shows that Excellence Plus Contracting gains revenue equal to the sum of all the assets for 147 days.

2.4. Labour productivity

Labour productivity is calculated as one of the indicators of the efficiency of labour utilization, – the ratio of revenue from sales to the average number of [firm] employees.

For the last year, the labour productivity was equal to 1,355 thousand USD/employee.

3. Conclusion

3.1. Key Indicators Summary

The most important indicators of Excellence Plus Contracting's financial state and activity results are summarized below by using a qualitative assessment during the reviewed period (2011).

We can point out among the such *excellent* financial rates:

- the debt ratio has an optimal value of 0.42
- the value of the noncurrent assets to net worth ratio (0.03) can be specified as excellent
- the current ratio (2.35) completely corresponds to the standard criteria for this rate
- an outstanding relationship between liquid assets (current assets minus inventory) and current liabilities (quick ratio makes 1.78)
- high return on equity (28.5% per annum)
- return on total assets made during the last year 16.6% per annum
- net worth (net assets) of the company is much higher (by 25.6 times) than the stock capital on 31.12.2011
- working capital has a normal value in comparison with inventory owned by the company
- For the year 2011, earnings before interest and taxes (EBIT) made USD 729 thousand, moreover, a positive dynamics compared with the data for the same period as last year (USD +169 thousand) was observed
- income from financial and operational activities (net income, including portion attributable to noncontrolling interest) made USD 723 thousand for the year

The following rate is the financial rate with the value *which borders on the edge of standard* – the increase in equity during the year was lower than the growth rates of total assets.

The following rate *negatively* describes Excellence Plus Contracting's financial state – the cash ratio is equal to 0.09 on 31 December, 2011 (a low cash in hand level required for current payments).

3.2. Rating of the Financial Position and Financial Performance of Excellence Plus Contracting

Financial performance for the period analysed (01.01–31.12.2011)	**Financial position** on 31.12.2011									
	AAA	AA	A	BBB	BB	B	CCC	CC	C	D
Excellent (AAA)	•	**V**	•	•	•	•	•	•	•	•
Very good (AA)		•								
Good (A)		•								
Positive (BBB)		•								
Normal (BB)		•								
Satisfactory (B)		•								
Unsatisfactory (CCC)		•								
Adverse (CC)		•								
Bad (C)		•								
Critical (D)		•								

Final **rating of the financial condition** of Excellence Plus Contracting (period analysed: from 01.01.2011 to 31.12.2011 according to the data of the one reporting period):

AAA
(excellent)

The following conclusions were made based on a qualitative assessment of the rates at the end of the period analysed, their dynamics during the period and the forecast for the next year. Scores of the financial position and activity results of Excellence Plus Contracting were +1.55 and +1.8 respectively, i.e. the financial position is characterized as very good; the financial results are described as excellent for the year. These two scores were used to calculate the final rating score of the company's financial condition, which made **AAA** (**excellent** condition).

An "AAA" rating expresses the excellent financial condition of a company and its' capability to meet it's current and likely noncurrent liabilities. Such companies refer to the category of reliable borrowers with high creditworthiness.

One should say, that this rating is prepared by analysing financial data during the period analysed (01.01.2011–31.12.2011). But it is necessary to make an analysis of a company's activity for at least the last 2-3 years to obtain enough reliable results.

4. Appendix

4.1. Bankruptcy Test (Altman Z-score)

The Altman Z-score is one of the values predicting the company's bankruptcy in the near future and is calculated in the following way (a 4-factor model for a private non-manufacturer is taken for Excellence Plus Contracting):

Z-score = $6.56T_1 + 3.26T_2 + 6.72T_3 + 1.05T_4$, where

Ratio	Calculation	Ratio value on 31.12.2011	Weighting factor	Product (col. 3 x col. 4)
1	2	3	4	5
T_1	Working Capital / Total Assets	0.56	6.56	3.7
T_2	Retained Earnings / Total Assets	0	3.26	0
T_3	Earnings Before Interest and Taxes / Total Assets	0.16	6.72	1.09

T_4	Equity / Total Liabilities	1.36	1.05	1.42
Altman Z-score:				6.22

Zones of Discrimination:

- 1.1 or less – “Distress” Zone
- from 1.1 to 2.6 – “Grey” Zone
- 2.6 or more – “Safe” Zone

Excellence Plus Contracting's Z-score made 6.22 on 31.12.2011. Such a value says about the insignificant probability of Excellence Plus Contracting's bankruptcy.

4.2. Calculation of the Final Rating of the Financial Condition

Indicator	Weighting factor	Score			Average score (col.3 x 0.25 + col.4 x 0.6 + col.5 x 0.15)	Weighted average score (col.2 x col.6)
		past	present	future		
1	2	3	4	5	6	7
I. Rating of the company's financial position						
Debt ratio	0.3	+2	+2	+2	+2	+0.6
Noncurrent assets to net worth	0.15	+2	+2	+2	+2	+0.3
Current ratio	0.2	+2	+2	+2	+2	+0.4
Quick ratio	0.2	+2	+2	+2	+2	+0.4
Cash ratio	0.15	-1	-1	-1	-1	-0.15
Total	1	**Final score** (in total col.7 : col. 2):				**+1.55**
II. Rating of the company's financial performance						
Return on equity (ROE)	0.5	+2	+2	+2	+2	+1
Return on assets (ROA)	0.3	+2	+2	+2	+2	+0.6
Sales growth	0.2	+1	+1	+1	+1	+0.2
Total	1	**Final score** (in total col.7 : col. 2):				**+1.8**

The final rating score of Excellence Plus Contracting's financial condition: (**+1.55** x 0,6) + (**+1.8** x 0,4) = **+1.65** (AAA - excellent)

Reference: Financial condition scale

Total score		**Sign**	**The qualitative assessment of a financial condition**
from	**to** (inclusive)		
2	1.6	AAA	Excellent
1.6	1.2	AA	Very good
1.2	0.8	A	Good
0.8	0.4	BBB	Positive
0.4	0	BB	Normal
0	-0.4	B	Satisfactory
-0.4	-0.8	CCC	Unsatisfactory
-0.8	-1.2	CC	Adverse
-1.2	-1.6	C	Bad
-1.6	-2	D	Critical

The report was prepared by the financial analysis software.
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